Central Bank Weekly March 28th: Previewing minutes from ECB and RBA, RBI announcement; Reviewing Riksbank and BoJ SOO

PREVIEWS:

RBA MINUTES (TUE): The RBA will publish the minutes from its March 18th-19th meeting where the central bank provided no major surprises as it kept the Cash Rate Target at 4.35%, as unanimously forecast, while it reiterated that the Board remains resolute in its determination to return inflation to the target and inflation continues to moderate but remains high. RBA stated that the “Board is not ruling anything in or out on interest rates” which was a slight adjustment to the previous statement that “a further increase in interest rates cannot be ruled out”, although Governor Bullock had made a similar comment during last month’s press conference. The RBA also noted that higher interest rates are working to establish a more sustainable balance between aggregate demand and supply in the economy and the Board expects that it will be some time yet before inflation is sustainably in the target range, while it added there are encouraging signs that inflation is moderating although the economic outlook remains uncertain. Furthermore, RBA Governor Bullock refrained from any hawkish surprises during the post-meeting press conference where she noted they are making progress in the fight against inflation and that recent data suggests they are on the right track but added the war isn't won yet on inflation, while she also commented that the board sees risks on both sides for policy and needs to be much more confident on inflation coming down to consider a rate cut.

ECB MINUTES (THU): As expected the ECB opted to stand pat on rates as policymakers continue to monitor progress towards the Bank's inflation mandate. Furthermore, guidance on rates was reaffirmed as stating that "rates will be set at sufficiently restrictive levels for as long as necessary". This served as a disappointment to some who had been hoping that policymakers would insert some language suggesting that discussions on the policy normalisation process had begun. However, the accompanying macro projections did offer something to the doves with the 2024 and 2025 inflation forecasts lowered, leaving the latter matching the Bank's 2% target. From a growth perspective, 2024 was cut to 0.6% from 0.8% with next year's forecast held at 1.5%. At the follow-up press conference, Lagarde noted that the Bank is not yet "sufficiently confident" when it comes to meeting its target. In terms of the policy path beyond the March meeting, Lagarde stated the Bank will know a little more in April but a lot more in June. When it comes to the discussions held during the meeting, Lagarde stated that the policy decision was unanimous, there was not a discussion over rate cuts but the GC has begun discussing dialling back its restrictive stance with the view that the Bank will not wait until the 2% inflation target is reached in order to cut rates. Subsequently, source reporting via Reuters noted that policymakers overwhelmingly favour June for the first rate cut; something which has been reaffirmed via subsequent rhetoric from Governing Council members. As such, any mention of this in the account of the meeting will not be new information for the market. That being said, reporting from Reuters also noted that some policymakers floated the idea of a second cut in July to win over a small group still pushing for an April start; any discussion on this will be of note for the market.

RBI ANNOUNCEMENT (FRI) The RBI is expected to keep the Repurchase Rate unchanged at 6.50% and maintain its stance of remaining focused on the withdrawal of accommodation when it concludes its 3-day policy meeting next week with all 56 forecasters surveyed by Reuters unanimously expecting rates to be kept unchanged. Furthermore, a Reuters poll showed the RBI is expected to keep the repo rate unchanged at least until the end of Q2 and then cut by 25bps in Q3 with a total of 50bps cut expected this year to lower the repo rate to 6.00% by year-end. As a reminder, the RBI kept rates unchanged at the previous meeting in February and maintained the policy stance of remaining focused on the withdrawal of accommodation in which 5 out of 6 members voted in favour of the rate decision and policy stance with MPC external member Varma the lone dissenter who voted for a 25bps cut and for a change in stance to neutral. The language from RBI Governor Das during the policy address remained hawkish and suggested the unlikelihood of any near-term policy tweaks as he stated that growth in India is accelerating and inflation is on a downward trajectory in India, as well as noted that multi-pronged policies have worked well to maintain and strengthen macro and financial stability. Furthermore, Das said the job on inflation is not yet finished as headline inflation remained high and has seen considerable volatility, while he also commented the CPI inflation target of 4% is yet to be reached and monetary policy has to remain vigilant. The recent data releases also support the case to remain on hold as GDP data for the December quarter was stronger than expected with Y/Y growth at 8.4% vs. Exp. 6.6% (Prev. 7.6%) and although the latest Industrial Production reading missed forecasts for January, this remained in line with the previous reading at 3.8% vs. Exp. 4.1% (Prev. 3.8%). In addition, CPI Inflation was above target and slightly firmer than expected in February at 5.09% vs. Exp. 5.02% (Prev. 5.10%), but remained within the 2%-4% tolerance range which suggests a lack of urgency to tweak policy.

REVIEWS:

RIKSBANK REVIEW: Overall, as expected from the Riksbank with rates left unchanged and guidance that the first cut will occur in either May or June assuming inflation continues to moderate. Next week, the minutes will be scoured to see if any of the individual rate-setters have a more explicit view on the timing for the first cut. By extension, to see what the view on total 2024 easing is after Governor Thedeen said they interpret the rate path as showing three cuts this year. In terms of the decision between May/June, the SEK will play a key role as the Riksbank will be conscious of the fact that a cut in May could spark further depreciation, particularly as such a move would come before the likely first ECB cut in June. A dynamic which may tip the balance in favour of June vs. May unless inflation surprises to the downside in the interim. As a reminder, the SEB FI survey (pre-announcement) highlighted that the odds of a June cut over May increase markedly if EUR/SEK eclipses 11.60.

BOJ SOO REVIEW: BoJ Summary of Opinions from the March 18th-19th meeting stated that a member said YCC, negative rate and other massive stimulus tools have accomplished their roles. One member said BoJ must guide monetary policy using short-term rates as the main policy means, in accordance with economic, price and financial developments. One member said shifting to 'normal' monetary easing is possible without causing short-term shocks, and may have a positive impact on the economy in the medium-, and long-term perspective. All-in-all, the release hinted at a cautious approach, whilst there was little in terms of fresh commentary from the release. As a reminder, the Bank of Japan exited its negative interest rate policy and abandoned YCC, as widely telegraphed, in which it will now guide the overnight call rate in the range of 0%-0.1% and will apply a 0.1% interest to all excess reserves parked at the central bank. The BoJ also announced to end ETF and J-REIT purchases, as well as gradually reduce the amount of purchases of commercial paper and corporate bonds whereby it will discontinue purchases of CP and corporate bonds in about one year but also stated that it expects to maintain an accommodative monetary environment for the time being and will continue its JGB purchases at broadly the same amount as before. Furthermore, it announced its planned monthly bond purchases and noted that in the case of a rapid rise in long-term rates, it will make nimble responses with JGB buying and could increase the amount it buys or conduct fixed-rate operations for JGBs, while it also announced to provide loans under the Fund Provisioning Measure to stimulate bank lending with such funds to be provided with an interest rate of 0.1% and a 1-year duration.